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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	CC Docket No. 96-128
Implementation of the	)	
Pay Telephone Reclassification	)	
and Compensation Provisions of the	)	
Telecommunications Act of 1996	)	

COMMENTS OF COMMUNICATIONS CENTRAL INC.

Pursuant to Section 1.429(f) of the Commission's Rules, 47 C.F.R. § 1.429(f), Communications Central Inc. respectfully submits these comments in support of the American Public Communications Council's and Peoples Telephone Company's Petitions for Reconsideration of the Commission's Second Report and Order ("*Second R&O*") in the above-captioned proceeding.[1]

ARGUMENT

CCI endorses the fundamental premise underlying the Commission's payphone compensation plan, namely that a market-based approach is the appropriate way to ensure that payphone service providers (PSPs) receive fair compensation. Nonetheless, the Commission should heed the American Public Communications Council's suggestion to reevaluate its decision to use the deregulated local coin rate as the market-based surrogate, rather than another

[1] *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-128, Report and Order, 11 FCC Rcd 20541 (1996) ("*Order*"); Order on Reconsideration, 11 FCC Rcd 21233 (1996) ("*Reconsideration Order*", together "*Payphone Orders*"), remanded sub. nom., *Illinois Public Telecommunications Association v. FCC*, 117 F.3d 555 (D.C. Cir. 1997) ("*IPTA*"); Second Report and Order, FCC 97-371 (rel. October 9, 1997).

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market-based surrogate, as the basis for dial-around compensation.[2] In addition, CCI supports the APCC, Peoples and the RBOC/GTE/SNET Payphone Coalition ("LEC Coalition") in arguing that the Commission should reconsider two aspects of its avoided cost methodology used to determine the default rate for dial-around compensation. First, the Commission should treat the capital costs of a payphone's coin mechanism as joint and common costs, attributable to both coin and coinless calls. Second, the Commission should adjust its avoided cost analysis for costs solely attributable to bad debt expenses and associated administrative expenses that are incurred in collecting dial-around compensation. As a result of these two adjustments, the Commission should raise the dial-around compensation default rate from $.284 to a minimum of $.33 per call.

A. The Commission Should Evaluate Other Market-Based Surrogates as the Basis for Dial-Around Compensation.

The D.C. Circuit directed the Commission on remand to provide additional justification as to why a $.35 rate, which is equal to the deregulated local coin rate in the majority of states that had allowed the market to establish payphone service rates, is an appropriate measure of fair compensation for dial-around calls, despite evidence in the record that the costs of the two types of calls may not be "similar." The Court specifically requested that the Commission respond to evidence in the record showing the dissimilarity of local coin and dial-around call costs.[3] Although the Commission has analyzed the cost differences between coin and

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2 Throughout this discussion, both subscriber 800 calls and access code calls are included in the term "dial-around calls."

3 *IPTA* 117 F.3d at 560.

coinless calls, the Commission should also examine whether the use of another market-based surrogate may be a better starting point for the determination of dial-around compensation.

Specifically, the APCC and the RBOC/GTE/SNET Payphone Coalition both noted that commissions, payments under 0+ transfer tariffs and sent-paid toll surcharges are valid market-based proxies on which the Commission could base the dial-around default compensation rate. Petition of the APCC for Reconsideration at 7-9, RBOC/GTE/SNET Coalition Remand Comments at 24-26. Use of these surrogates, as noted by APCC, would result in a higher dial-around compensation rate for two reasons. First, the average market-based proxy is higher than the deregulated local coin rate. Second, there is no cost differential to be accounted for between the two types of calls because the underlying costs of a dial-around call and the market proxy are the same (i.e., there are no cost differences between two types of coinless calls). APCC Petition for Partial Reconsideration at 7. By reevaluating its choice of market-based proxies, the Commission will only be reaffirming the basis for dial-around compensation, without diverging from its market-based approach for ensuring fair compensation to PSPs for dial-around calls.

B. The Commission Erred in Including Coin Mechanism Costs as Avoidable Costs.

The APCC, Peoples and the LEC Coalition have each correctly identified the major problem with the Commission's avoided cost methodology: namely, the inclusion of the coin mechanism's capital costs as an avoidable cost of dial-around calls. The Commission had concluded improperly that "costs directly associated with the coin mechanism should be attributed to coin traffic." *Second R&O* at ¶ 52. As the LEC Coalition and Peoples identified, most payphones would not exist but for the coin mechanism. LEC Coalition Petition for

Reconsideration at 9, Peoples at 4-5. As the APCC stated, where a coinless payphone does exist, the revenue from the coinless calls alone must be high enough to recover the total cost of the coinless payphone. APCC Petition for Partial Reconsideration at 11. Data collected and analyzed by the APCC demonstrated that the cost of a coinless call would have to be approximately $.65 per call in order to recover its total costs -- a rate much higher than what the Commission is considering as fair compensation for dial-around calls. *Id.*

Thus, in order for a payphone to be available for dial-around calls to be made, the capital costs in providing the coin equipment are properly allocable across all calls, not just coin calls. The capital costs of a coin mechanism are, in fact, a joint and common cost of both coin and coinless payphone calls. The Commission's conclusion to deduct the 3.1 cents for the coin mechanism's capital costs from the market rate of $.35 per call is simply wrong -- no adjustment should be made for coin mechanism capital costs.

C. Dial-Around Bad Debt Expenses Should be Added Back to the Market-Based Rate.

The Commission wrongly concluded that it did "not have sufficient information to attribute an amount to bad debt" charges that are solely related to dial-around calls. *Second R&O* at ¶ 56. As a result, the Commission did not add back the costs that PSPs incur as a result of carriers not paying, or delaying payment of, their share of dial-around compensation -- costs which are solely attributable to dial-around calls. As Peoples noted, "[t]his is a clear error by the Commission." Peoples Petition for Reconsideration at 6. Indeed, the LEC Coalition rightly noted that many long distance service providers will never pay their fair share and are similar to day lilies in August, "some of whom may quickly flower and fade." LEC Coalition Petition for Reconsideration at 16.

Specifically, CCI has examined its bad debt expense for the only quarter in which it has received dial-around compensation under the Commission's vacated, interim compensation plan. Of the $45.85 per month per payphone that was due to CCI in November and December, 1996, CCI has been unable to collect $1.99 or 4.34% of the total compensable monthly amount. This translates into a bad debt expense solely related to dial-around calls of $.015 per month ($1.99/131 dial-around calls). This 1.5 cents should be added back to the cost of a dial-around call.

In fact, the analysis above does not consider the additional administrative and bad debt expense CCI and other PSPs will incur as the industry transitions to a per call compensation environment. For example, CCI will now have to monitor and audit the billing and collection of compensation for, on average, 152 calls from its approximately 20,000 payphones each month, rather than a flat rate per payphone per month. Moreover, the number of carriers from whom compensation is owed will increase, thereby adding to the administrative expense in collecting dial-around compensation. From CCI's experience, an increase in the number of disputes and delays in collecting dial-around compensation is coincident with an increase in the number of carriers as well. Thus, it was clear error on part of the Commission not to consider this additional expense, which is solely attributable to dial-around compensation, in its avoided cost analysis.

CONCLUSION

The D.C. Circuit has approved the Commission's general approach to providing fair compensation to the payphone service provider, but remanded to the Commission for further consideration the use of a default rate for dial-around compensation that the Court found did not adequately account for the differences in costs between coin and coinless calls. The Commission developed a new rate based on an avoided cost analysis that took into account the Court's sole objection. In order to correct the flaws in the Commission's new analysis, however, the Commission should adjust the going forward rate of 28.4 cents upward by at least 4.6 cents for a dial-around compensation rate of at least 33 cents per call. This adjustment should be implemented on a going-forward basis from the time the Commission decides the petitions for reconsideration and finalizes its compensation plan for the initial interim period (November 7, 1996 through October 6, 1997).

Respectively submitted,
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January 7, 1998

CERTIFICATE OF SERVICE

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